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SUBJECT: THAI TELECOM SECTOR: NORWAY'S TELENOR BUYS OUT
UCOM AND TAC

REF: N/A

[11.](#) (U) SUMMARY: On October 20, 2005, Norway's Telenor announced an indirect takeover of Thailand's UCOM and its mobile phone subsidiary Total Access Communications (TAC). The complex transaction paves the way for Telenor control of Thailand's second-largest mobile phone operator. The National Telecommunications Commission is reviewing the deal, but appears unlikely to block it. If allowed, the buyout promises to strengthen competition in the mobile telephone services market, which will benefit consumers and the nation's infrastructure. The deal will not likely open the door to future cross-border buyouts in the telecom sector anytime soon, however, because of the pervasive economic nationalism within both the government and industry. END SUMMARY

THE DEAL

[12.](#) (U) The Norwegian telecom company Telenor ASA entered the Thai telecom market in 2000, investing 30 billion baht (about \$720 million at the time) in United Telecommunications Industry PCL (UCOM), one of Thailand's oldest telecom firms. The Thai-Norwegian company has since made dramatic strides in revitalizing its market and financial positions. Then, in November 2004, Telenor's Singapore unit, Telenor Asia Pte Ltd (Telenor Asia), set up a company named Borelo Ltd (Borelo) in Thailand with a registered capital of 10 million baht. Borelo is 48.98 percent owned by Telenor Asia. Telenor Mobile Holding and Telenor Mobile Communication also jointly own a combined stake of 0.02 percent in Borelo, with the remaining 51 percent held by Thai nationals.

[13.](#) (U) Telenor's effort to enter the Thai market culminated in the October 20, 2005 announcement that it was buying out the founding Bencharongkul family and taking effective control of both UCOM and its subsidiary, the mobile phone operator Total Access Communications (TAC). TAC is the country's second largest mobile phone provider, which markets its services under the DTAC brand. Structured in a manner to work around Thailand's restrictions on foreign ownership of businesses, the series of transactions comprising the deal basically enable Telenor to become the majority shareholder in both UCOM and TAC, when direct and indirect holdings are combined.

[14.](#) (U) The cornerstone of the deal is the holding company Thai Telco Holdings Limited (Thai Telco), a 49 percent-owned subsidiary of Telenor Asia in which Borelo also has a 24 percent stake. Under the terms of the deal, Thai Telco purchased a 39.88 percent stake in UCOM (173.3 million shares) from the Bencharongkul family at 53 baht per share for a total of 9.18 billion baht (about \$229.5 million). Telenor Asia already holds a 24.85 percent stake in UCOM and a 29.9 percent direct stake in TAC. UCOM currently owns a 41-percent stake in TAC.

[15.](#) (U) Thus, when direct and indirect holdings are combined, Telenor and its subsidiaries will own 64.73 percent of UCOM and 70.9 percent of TAC, thereby obtaining effective control of both companies. Telenor will consolidate the financial results of UCOM and TAC into its financial results. Thai Telco Holdings will also submit a tender offer for the 35.27 percent of UCOM and all outstanding shares of TAC not already controlled by UCOM or Telenor and its subsidiaries. If all outstanding shares tendered in UCOM and TAC are accepted (at the projected price of 53 baht per share), the total cost to Telenor is estimated at 34 billion baht (about \$850 million).

REGULATORY APPROVAL LIKELY

[16.](#) (U) Precisely because the deal barely complies with the letter let alone the spirit of Thai restrictions on foreign ownership, some Thai observers have criticized the deal. Why

should what is essentially a foreign company be allowed to gain control of a domestic one, particularly in a sector as critical for both economic development and national security as telecommunications? (Note: Under current law, foreign ownership in the telecommunications sector is capped at 25 percent. Parliament has passed an amendment to the law that would raise the limit to 49 percent. The amendment has already been approved by the Cabinet and the Council of State. It is expected to become effective at the end of the current session of Parliament in December 2005. End note.)

17. (U) Industry observers do not expect the NTC to block the deal outright, especially if the Securities and Exchange Commission is on board as it appears to be. As one securities analyst who has long followed the sector explained to the Embassy, the industry regulator is in the spotlight as a result of the deal, and postponing a decision will be difficult because a foreign entity is involved and because the NTC is still in the process of establishing itself and the scope of its authority. On October 24, the NTC announced that it would examine whether Telenor's takeover of UCOM would hurt market competition and consumers, but it has not given any indication of either its view or likely decision. One industry lawyer familiar with the deal told the Embassy that the NTC is unlikely to interfere with the deal itself, because TAC can make the argument that the business it operates under the concession with state-owned CAT Telecom Pcl (CAT Telecom) is protected under constitutional provisions to safeguard concessionaires.

18. (U) The same observers nevertheless doubt that Thai regulatory authorities would permit similar foreign buyouts of the telcos. Even this transaction is expected to face difficulties as the purchase goes forward. The above-mentioned securities analyst immediately downgraded TAC. Blocking the deal would not be very Thai, he explained, and TAC will more likely run into other barriers that will make doing business difficult. The industry lawyer agreed, explaining that when TAC applies for a 3G license from the NTC, for example, it may encounter difficulties. Consistent with his prediction, the NTC has announced that it may delay issuance of any 3G license until the amendment raising the cap on foreign ownership from 25 to 49 percent becomes effective. The NTC is in the process of drafting competition codes to prevent market abuse by giant operators, and has not yet announced the specific provisions of such codes. Widespread concern among industry players that the regulatory regime allows local businesses to compete with foreign companies on a level playing field will ensure that whatever the NTC does will be closely watched.

WHY NOW?

19. (U) Although the buyout surprised the industry and those who follow it, including observers expecting closer cooperation between TAC and Telenor, the deal appears to have come together in part because the Bencharongkakul family was willing to sell out. Boonchai Bencharongkakul, TAC Chairman, has publicly said, and during the past sixteen years working with DTAC, I have not been happy for a single day; we have suffered discrimination by the government. Indeed, the terms of DTAC's concession with the state-owned CAT Telecom to operate are less favorable than the terms of the market leader Advanced Info Service Public Company Limited (AIS), which is a member of the Shin Corp group founded by Prime Minister Thaksin Shinawatra (Shin Corporation Public Company Limited). In addition to the revenue sharing fees under the CAT Telecom concession, DTAC must pay an access fee to the state-owned TOT PCL (formerly Telephone Organization of Thailand PCL) of 200 baht per month per number. Industry observers suggest that, after going head-to-head with AIS for years, Boonchai and Vichai Bencharongkakul are now throwing in the towel.

10. (U) Several securities analysts have also suggested that now is an opportune time for the Bencharongkakul family to exit because of the capital expenditure that will be required for the rollout of third generation wireless technology (3G), which will bring higher data transmission speeds and Internet Protocol (IP) based services. According to a well-placed source at a local securities firm, TAC needed an infusion of capital as soon as possible because it has bonds coming due. Shin Corp CEO Boonklee Plangsiri indirectly confirmed this point in recent interviews with the press in which he has emphasized that AIS has sufficient financial resources to develop a 3G business on its own.

11. (U) Another likely reason for the deal is that the competitive environment in the mobile services market has reached the point where some consolidation among the four major providers (AIS, DTAC, TA Orange, and Hutch) is inevitable. After several years of rapid increases in number of subscribers, growth has leveled off and the four major providers have targeted each others' customers. Revenue per

subscriber has fallen during the past year, in part as a result of a fierce price war in early 2005. According to company insiders, TAC initially sought to merge with TA Orange (TA Orange Company Limited), and turned to Telenor only after such deal failed to come together. According to one financial analyst, the family's acceptance of the surprisingly low selling price of 53 baht per share may be realistic because they understand the real value of the firm in a segment of the market about to undergo consolidation. The same analyst also suggested the possibility that disagreement among management prompted the Bencharongkakul family to sell out.

TAKEOVER WOULD BENEFIT CONSUMERS AND INFRASTRUCTURE

¶12. (U) In their public statements, executives insist that both UCOM and TAC will remain Thai firms. Telenor Asia will achieve only an enhanced operational role in mobile operator DTAC.⁸ Similarly, all parties emphasize that the transaction complies with all relevant stock market regulations in Thailand and Singapore.⁸ In effect, however, the deal makes both UCOM and TAC subsidiaries of Telenor. Current plans call for UCOM to focus on broadband internet services and TAC to maintain its focus on mobile telephone services. Sigve Breeke, currently CEO of TAC, will also become CEO of UCOM.

¶13. (U) The deal is expected to increase the competitive pressures in Thailand's market for mobile phone services. TAC (commonly referred to by its brand name DTAC) is the number two mobile phone operator in Thailand. TAC reported a subscriber base of 8.2 million at the end of August. It has a 28 percent share of the mobile market, compared with 54 percent for market leader AIS. Telenor executives see additional upside to the business from continued growth. Analysts estimate that about 45 percent of the population has mobile phone access. Expectations regarding future growth vary widely. Optimists expect the number of Thais with mobile access to rise to about 75 percent by the end of the decade. More conservative observers see growth in new subscribers occurring more slowly, and at the bottom of the value chain for the most affordable services on offer. All industry observers expect that Telenor and TAC will likewise attempting to compete for market share on the basis of higher quality and innovations in service. The same observers generally welcomed stronger competition for the market leader AIS, adding that Thai consumers care little about foreign ownership in comparison to the value their money buys.

INTEREST IN ADDITIONAL CROSS-BORDER DEALS

¶14. (U) Owing in part to existing foreign investment in the mobile phone operators, and in part to the capital investment required for buildout of 3G services, there exists considerable interest both within Thailand and abroad in other cross-border deals. Singapore Telecom already owns a 21.5 percent stake in AIS. In July 2005, TOT president Teerawit Charuwat announced that the Singapore Telecom subsidiary National Computer Systems Pte Ltd (NCS) was interested in buying a 50 percent stake in a TOT concern expected to handle e-government projects. Since the announcement of the Telenor deal, True Corp, which offers mobile services through its subsidiary TA Orange, has said that the company would seek a foreign partner with telecom expertise. The NTC has reported that several European and Asian telecom operators have sought details on investment guidelines and regulations. One local newspaper also reported that the Shinawatra family might sell out its controlling stake in Shin Corp to China's biggest fixed-line phone company, China Telecom. Shin Corp has denied the report, however. Estimates of the speed with which the rollout of 3G will occur vary, but there is no question that Thailand is moving forward. The NTC will begin hearings in advance of issuing 3G licenses on November 7, 2005.

¶15. (U) Despite such interest in foreign investment in Thailand's telecom sector, the domestic legal framework remains comparatively restrictive. The most fundamental restriction is the cap on foreign investment that limits non-Thai investors to a minority stake in telecom concerns. In the view of Dr. Somkiat Tangkitvanich, Research Director of the Thailand Development Research Institute, for example, foreign ownership restrictions will remain a barrier to cross-border mergers and acquisitions for some time to come.

COMMENT

¶16. (U) We view Telenor's buyout of UCOM and TAC as being a positive development for Thai consumers, who have seen considerable improvement in both the quality and price of

mobile services on offer as a result of heightened competition in recent years. We do not expect that the NTC or other regulators will block the takeover, and we think that over time foreign investment in the sector will increase. We nevertheless concur with the more cautious industry observers who expect that the new entity may encounter barriers to doing business, such as a delay in obtaining a 3G license, thereby detracting from the takeover's appeal as a model for future deals. Economic nationalism pervades both the telecommunications industry and the Royal Thai Government, and the Telenor buyout was too much of a shock to the industry for there not to be some sort of reaction to it. Besides regulatory concerns, in view of the considerable investment needed for the rollout of 3G networks, we also think that the deal is more likely to confirm the trend toward consolidation in the mobile phone market rather than open it up to new operators.

17. (U) Thus, we do not expect the climate for foreign investment in the Thai telecom sector to become either more encouraging or more transparent in the immediate term, particularly for US companies. When we asked the head of research at a leading Thai securities firm what the reaction would be if the company attempting to buyout UCOM were an American firm, he responded with surprise: "An American firm? That is different."⁸ While we are not aware of any US company seeking to buy into Thailand's retail telecom market in the same manner as Telenor, we understand that American firms are interested in other segments of the market and that existing caps on foreign ownership constitute a significant barrier to investment. Without obtaining a special dispensation regarding ownership restrictions for American firms in the Thai-US Free Trade Agreement, we see the little likelihood of American companies being allowed to own a majority stake in any Thai telecommunications concern.

BOYCE